




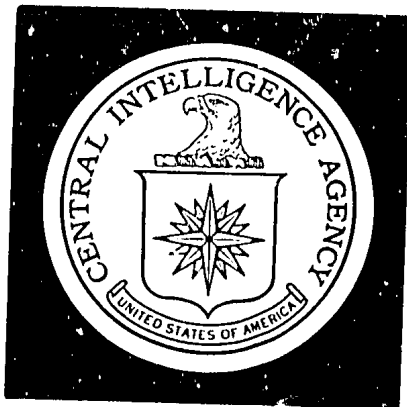
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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

The Chinese Economy Moving Ahead

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THE CHINESE ECONOMY: MOVING AHEAD

The Chinese economy has settled into self-sustaining growth on a broad front. Substantial increases in military and industrial production have marked 1971, the first year of the fourth five-year plan. Even though the current political turbulence may have delayed announcement of the details of the plan, it has had no discernible spillover in the actual operation of the economy. Barring a major political upheaval, there is a better than even chance that, over the next decade, China will be able to maintain economic momentum even while feeding a population expected to hit one billion by 1980.

China is already ahead of other large developing countries in basic economic strength, and the gap probably will widen. The Chinese, however, harbor the ambition of matching the world's leading industrial nations in economic and military power. While the country has the human and natural resources to become a superpower, it still must acquire the industrial establishment and technology to exploit these resources.

Experience under Communist rule indicates that material incentives and acquisition of technology from abroad are among the most effective ways to promote faster growth and development. Peking has already traveled some distance down this road, making major compromises with strongly held dogma along the way. For example, Japan is by far China's most important trading partner in spite of Peking's distaste for the Sato government.

Over the next few years, the Chinese leadership will be reluctant to allow more scope for private gain at home or further economic enmeshment with capitalist countries. Pursuit of revolutionary purity and self-reliance could slow the rate of economic growth and prevent China from gaining on the advanced industrial nations.

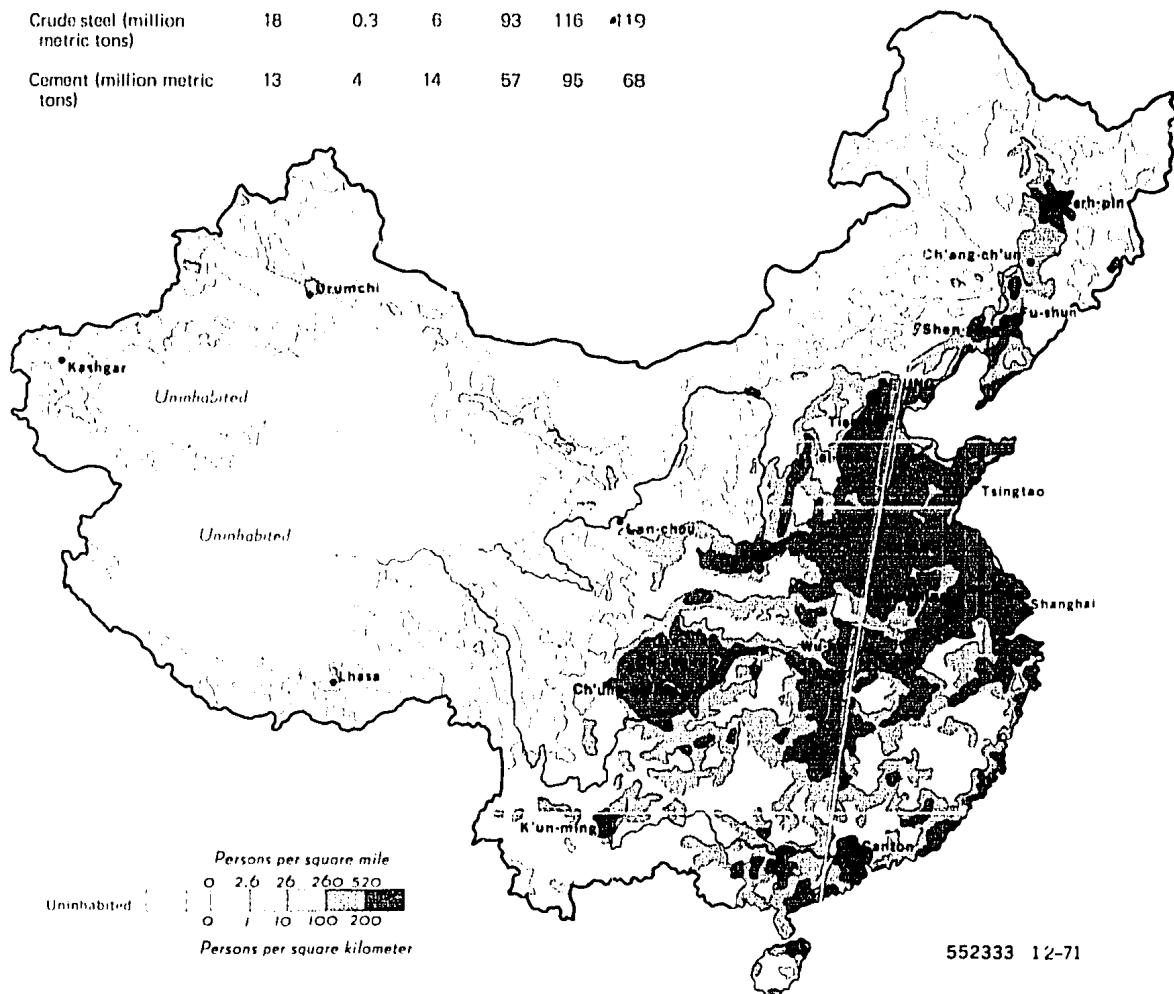
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INTERNATIONAL ECONOMIC COMPARISONS 1970

	China	Taiwan	India	Japan	USSR	US
Population, mid-year (million persons)	836	15	550	104	243	205
Average annual increase (percent)	2.2	2.3	2.5	1.0	0.9	1.1
GNP (billion 1969 US \$)	119	5	47	186	508	928
Imports (billion US \$)	2.18	1.52	2.15	18.9	11.7	40.0
Exports (billion US \$)	2.07	1.56	1.96	19.3	12.8	42.6
Grain production (million metric tons)	215-220	6	83	16	150	186
Industrial production index (1965 = 100)	138	222	117	215	139	117
Hard coal (million metric tons)	300	4	72	40	441	539
Electric power (billion kilowatt hours)	60	13	62	349	740	1,760
Crude oil (million metric tons)	18	0.09	7	0.8	353	475
Crude steel (million metric tons)	18	0.3	6	93	116	419
Cement (million metric tons)	13	4	14	57	95	68

CHINA:
Population

Special Report

- 2 -

23 December 1971

SECRET

SECRET

25X1

Economy on Strong Base

Economic growth achieved during the past 20 years provided China with a strong base for the launching of its fourth five-year plan (1971-75). By 1970, gross national product had risen to an estimated \$120 billion or double the level of 1952, the year when the economy had been restored to full operation. The average annual growth rate of the economy since then has been about four percent. Output of staple food-stuffs since 1952 has approximately matched population growth, while industrial production has grown at an average annual rate of eight percent.

All of this has been accomplished despite the severe economic damage wrought by the 1958-60 Great Leap Forward, which collapsed because of ill-conducted and overly ambitious policies, three successive years of bad weather, and the withdrawal of Soviet support. In contrast, the interruption to economic progress during the Cultural Revolution of 1966-69 was largely confined to the short-lived dip in industrial production in 1967-68.

Economic growth has been accompanied by a rapid advance in industrial technology. In addition to nuclear weapons production, the Chinese have mastered the production of several types of precision machine tools, a variety of electronics equipment, transport equipment, and modern weapons of both Soviet and Chinese design. The expansion of light industry, which provides the Chinese with simple, everyday consumer goods and is an important source of export earnings, has progressed at a slower pace.

The level of China's industrial technology today, however, is from five to twenty years or more behind Japan and Western Europe, depending on the priority of the industry involved. Closing the gap is proving difficult. The technological progress of the 1950s was temporarily halted by the withdrawal of Soviet technicians in 1960. China carried on by itself the projects started

under the Soviets and managed to complete most of them by about 1965. Subsequently, Japan and Western Europe became the sources for modern machinery and technology.

The fourth five-year plan, by every indication at hand, continues to emphasize the building up of China's military and industrial strength while providing a standard of living for the population at the minimal level required for productive efficiency and popular morale. Growth this year probably will not match the 17-percent gain in industrial production and 11-percent gain in GNP of 1970. That year was characterized by "catch-up" production as the economy settled down from the aftermath of the Cultural Revolution. Expansion of capital plant, as distinct from increased productivity, is a large contributor to growth of output this year. The rapid pace of construction points to important additions to capacity over the next few years.

Industry

China's strong industrial upswing continues and production of basic metals, fuels and power, industrial equipment, and military products almost certainly were at record levels this year.

Industrial plans stress construction of facilities that have traditionally received high priority, such as oil refineries, steel finishing facilities, electric power plants, and aluminum plants. In the military machine-building sector, emphasis is being placed on completing or expanding plants to produce nuclear weapons, submarines, missiles, and aircraft.

An upsurge in iron and steel production has increased demand for raw materials and intermediate products. China contracted in 1971 to import about 500,000 tons of pig iron to feed steel furnaces and iron foundries, whereas as much as a million tons of pig iron had been exported annually in the past. The industry still has only a limited capability for producing the most modern steels, and the manufacture of tubing and flat-rolled steel is as yet well below requirements.

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CHINESE INDUSTRIAL PRODUCTION

	1952	1957	1959	1961	1964	1965	1966	1967	1968	1969	1970
Industrial Production Index (1957 = 100)	51	100	163	103-105	133-141	155-165	177-190	142-154	147-162	178-198	208-233
Steel (million metric tons)	1.35	5.35	10	8	10	11	13	10	11.5	14.5	18
Coal (million metric tons)	66.5	130.7	300	170	200	220	240	190	200	250	300
Electric Power (billion kilowatt hours)	7.3	19.3	41.5	31	36	42	47	41	44	50	60
Crude Oil (million metric tons)	0.44	1.46	3.7	4.5	6.9	8	10	10	11	14	18
Aluminum (thousand metric tons)	0	39	70	60	100	115	125	145	180	195	230
Cement (million metric tons)	2.75	6.9	10.6	6.0	8.7	10.9	12.0	10.2	10.5	12	13
Chemical Fertilizers (million metric tons of product weight)	0.2	0.8	1.9	1.4	3.5	4.5	5.5	4.0	4.8	5.8	7.0
Trucks (thousand units)	0	7.5	19.4	1	26	34	47	34	31	66	75
Locomotives (units)	20	167	500	100	25	50	140	200	240	260	280
Freight Cars (thousand units)	5.8	7.3	17	3	5.7	6.6	7.5	6.9	8.7	11	12
Cotton Cloth (billion linear meters)	3.83	5.05	7.5	4.0	4.9	5.4	6.0	4.8	4.8	6.5	7.5

Consequently, imports of finished steel and related machinery and equipment go on expanding.

The transport and electronic equipment industries and the armament industries remain the star performers in machinery and equipment. The Chinese have mastered series production of diesel and electric locomotives. They have substantially expanded the variety of trucks, including small numbers manufactured or assembled in numerous local plants. In February, the Dairen Shipyard reported the completion of a tanker of 22,000 dead-weight tons, the largest built so far in China. In the electronics industry, the volume and

variety of sophisticated equipment are rising rapidly. The expansion of facilities for the production of nuclear weapons and delivery systems continues to enjoy the highest priority. In addition to surface-to-air missiles and short-range naval cruise missiles, the Chinese have produced an unknown number of MRBMs and IRBMs. They are also working on an ICBM program. These advanced weapons programs utilize a large share of China's top-level scientists, engineers, and plant managers as well as much of the modern machinery produced at home or imported.

In petroleum, another key industry, China has become self-sufficient. Annual output of

Special Report

- 4 -

23 December 1971

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SECRET

25X1

crude oil has risen from 4.6 million tons in 1960 to an estimated 18 million tons in 1970. China may even be able to export crude oil by the mid-1970s, although it is not a major oil producer by world standards.

Refining capacity has more than kept pace. China is now able to produce a complete range of petroleum products and is moving gradually to the production of petroleum-based chemical products. The effect of all these developments on the rest of the economy has been most apparent in the substantial increase since 1965 in petroleum-powered vehicles for military and civilian use—aircraft, diesel locomotives, trucks, tractors, and ships.

Chinese industry is also expanding through the development of small-scale industries. Small plants in rural areas serve the needs of agriculture as well as the rural population. They are constructed with local labor and materials and produce such things as farm implements, simple machinery, electric power, fertilizer, rural transport equipment, and building materials. Chinese claims indicate that the amount of cement and chemical fertilizer turned out by these plants has accounted for at least 40 percent of the national total. In contrast to the reckless policies of the Leap Forward era, the authorities so far have not been pushing the small-plant program to the point where it takes labor away from the harvest or strips other factories of their labor force.

Construction in the modern sector of industry includes an impressive variety of large-scale plants, which will strengthen prospects for sizable industrial gains during the fourth five-year plan period. Strategic considerations are a paramount factor in choosing locations for these plants. As a result, a high proportion is being constructed in interior areas of the country, particularly in the southwest, or near small towns and villages outside major population centers.

Agriculture

China's agricultural resources, large in absolute terms, are small in relation to the population and to requirements for industrial raw materials and export goods.

During 1949-58, the intensification of traditional agricultural practices and the collectivization of agriculture were combined to produce modest increases in agricultural output. The gains were clearly inadequate to meet either the requirements of a rapidly increasing population or an industrial boom; the establishment of communes in 1958 was a radical move intended, in part, to increase agricultural output at a much faster rate. However, inadequacies of communal management, together with catastrophic weather conditions, precipitated a crisis. By the winter of 1960-61, food rations—barely adequate in good times—were reduced by at least 25 percent, and discontent spread even to the armed forces.

Threatened with loss of control over China, the leadership moved quickly to open food stocks and arrange for the annual importation of four to five million tons of grain starting in 1961. It also decentralized agricultural decisions, restored private plots and small-scale private trade to enhance incentives, and initiated a program of investment to increase the flow of industrial products to the farms. Record levels of production were achieved in the late 1960s because of good weather and mounting benefits from investments in agriculture.

Grain production this year will be only fair. The early harvest, which normally accounts for about one third of total production, does not appear to have been exceptional; winter wheat in north China probably was average or better than average, but the early rice crop was little improved over 1970 despite a 20-percent increase in acreage. The fall harvest—the main factor in determining annual grain output—was mediocre at best. Because of the great shift to early rice,

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acreage sown to fall crops was down this year, and yields on much of the area of fall crops were reduced by poor weather conditions. Peking already has purchased three million tons of Canadian wheat for delivery in 1972.

In addition to feeding the population, agriculture must supply raw materials for industry and for export. One result has been a competition for available acreage between grain and the economic crops—cotton, soybeans, oilseeds, and tobacco. At present, sufficient cotton is being grown to provide a basic ration of about five linear meters of cloth a year—enough for a simple outfit of tunic and trousers—and to furnish a substantial volume of cotton textiles for export.

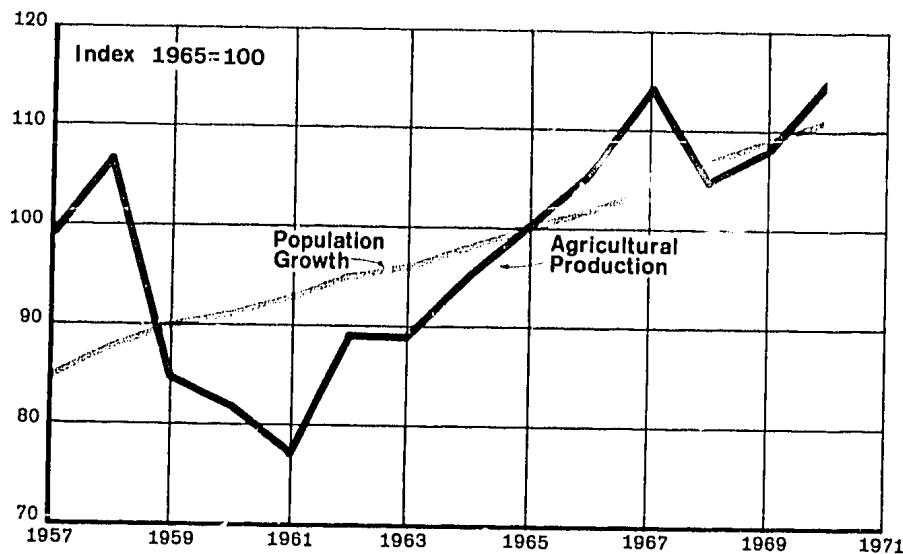
Because of limited possibilities to reclaim new land for cultivation, future improvements in crop production will have to come primarily from

higher productivity on land already being farmed. Considerable areas of cultivated land are being taken for nonagricultural uses, causing an over-all decline in cultivated acreage. Recent attempts to reclaim marginal land to balance these losses have been only partially successful, primarily because the land is mostly of very low quality and can only be reclaimed at high cost.

Foreign Trade

China's foreign trade, rigidly controlled by the central government and handled by several state trading corporations, totaled over \$4.2 billion in 1970. Its small size compared with total domestic output follows from China's production for its own use and from the subsistence nature of its agricultural economy. Nevertheless, China is a major purchaser of grain, chemical fertilizer, steel, rubber, and certain nonferrous metals and transport equipment.

CHINA: Population Growth and Agricultural Production



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Special Report

- 6 -

23 December 1971

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Peking frequently uses trade to achieve political gains. This year, for example, it penalized Australia for nonrecognition by withholding contracts for grain. On the other hand, it is increasing trade with the USSR, despite failure to reduce significantly political tensions.

A striking development has been a sharp increase in trade with Japan, now China's number-one trading partner. The volume rose from \$654 million in 1969 to \$855 million in 1970. This increase was concentrated on Chinese imports, which rose from \$415 million in 1969 to \$600 million in 1970.

Foreign trade will probably set another record this year. China appears to be holding back on imports and pushing exports to reduce the 1970 trade deficit of \$255 million with non-Communist countries. China continues to rely on surpluses gained in trade with Hong Kong and Southeast Asia to offset deficits incurred with Japan and the West.

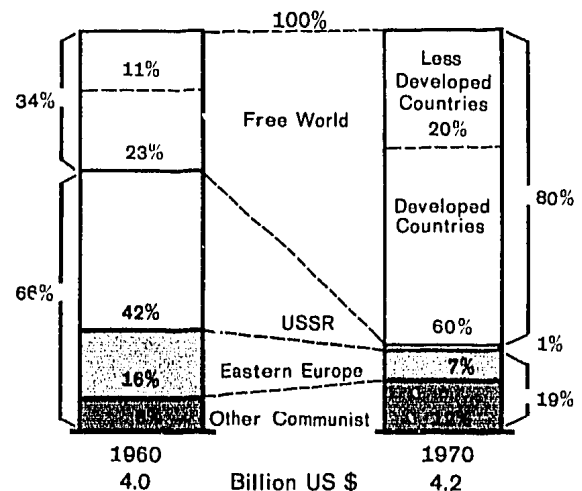
Trade with Communist countries now is about 20 percent of the total. Although trade with the USSR is scheduled to register a huge percentage jump, the first increase in more than a decade, the absolute amount will still be relatively small. The first trade agreement in three years between the two countries was signed in late 1970. Trade turnover this year is expected to more than double the low point of \$47 million in 1970. Sales of Soviet aircraft have been announced, and five IL-62s, China's first long-range transport, have been delivered. Contracts covering a wide range of other goods have been noted. Chinese trade with East Europe also is rising, with Romania making the largest gains.

Trade is governed by extremely conservative financial policies. Gold and foreign-exchange reserves were estimated at about \$720 million at the 1970 year-end. China has no long-term debts, domestic or foreign.

Although China could obtain long-term credit to expand trade with the West, Chou En-lai has pointed out that only short-term commercial credits, easing the flow of trade, would be used. Wheat imports, for example, are financed with ordinary 18-month commercial credits, which frequently are repaid in advance of due dates.

In contrast to other developing nations, some of whom bear a crushing burden of debt, China is a net exporter of capital. Peking

CHINA: Foreign Trade



	Exports	Imports	Total
1952	0.88	1.01	1.89
1957	1.60	1.43	3.03
1959	2.20	2.06	4.26
1961	1.52	1.50	3.02
1964	1.75	1.47	3.22
1965	2.00	1.86	3.86
1966	2.17	2.03	4.20
1967	1.92	1.94	3.86
1968	1.89	1.82	3.71
1969	2.02	1.84	3.86
1970	2.15	2.10	4.25

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Special Report

- 7 -

23 December 1971

SECRET

SECRET

25X1

maintains a sizable foreign economic and military aid program in selected Communist and non-Communist countries at an annual cost of roughly \$400 million. North Vietnam, the largest single recipient, had received \$1.4 billion in military and economic aid by the end of 1970. During 1956-70, China extended \$1.7 billion in economic aid to less-developed non-Communist countries, mainly in the form of long-term, interest-free loans. Only a third of the amount has actually been used.

A Forecast

Continued economic growth during the new five-year plan seems assured, given the industrial base and momentum already acquired. Agriculture should stay abreast of population, and industry should grow in the range of five to ten percent annually. Long spells of bad weather or a return to radical policies would, of course, dampen these prospects.

China's per capita level of GNP—now roughly \$150—may be regarded as providing \$100 for basic maintenance, with the balance available for industrial development and national defense. This per capita figure added up over a population of 855 million people gives a powerful absolute push to industrialization and military modernization.

China's huge population has a basic character suitable for economic development. The average Chinese is quick to learn, industrious,

frugal, reasonably healthy, and well-motivated to improve his material lot. Because of the population size—some 855 million in mid-1971—the government needs to draft only ten percent of the 10 million males reaching military age each year to maintain its 3-million-man army. In the industrializing urban areas, labor has been so plentiful that normal growth of the established population has been sufficient to match injections of new capital.

On the other side of the coin, the enormous population poses formidable problems of feeding and clothing, even at the austere levels that have been maintained over the past 20 years. Birth-control measures have been sporadic and so far have made no appreciable dent in the estimated 2.2-percent annual growth rate. Rural public health standards are rising simultaneously with the propagation of birth-control measures, and the one may cancel out the other insofar as the future growth rate is concerned.

Over the next few years, Peking will no doubt try to minimize the central government's burden for financing agricultural development by encouraging the growth of local industry, by strengthening the birth-control program, and by resisting pressures for a higher payoff to the peasants as larger harvests are attained. Improvements in China's agricultural resources will be at a relatively simple technological level appropriate to the country's needs, and it may be a decade before China can achieve the higher yields of, for example, Taiwan or Mexico.

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